SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of hearings held at the Parliament Buildings, Toronto, Ontario, on the 28th day of October, 1964.

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October 28, 1964

---UPON COMMENCING AT 10:00 A.M.

THE CHAIRMAN: This morning, as you know, we are to hear from Professor Robert W. Johnson, Professor of Industrial Administration, the School of Industrial Administration, Purdue University. Mr. Johnson, Professor Johnson, as you know, is an authority in this subject and we are very fortunate to have him with us this morning. We extended an invitation to him a few weeks ago and he very kindly has consented to come and give us the benefit of his experience in this field and we will ask him now to proceed.

PROFESSOR JOHNSON: I am very pleased to appear at the invitation of this Committee and let me proceed with my statements. As far as I am concerned you are welcome to interrupt at any time and question me as we go along, or at the end.

One of the major points at issue is the manner in which finance charges on consumer instalment credit should be expressed to the consumers. In our thinking we should distinguish this requirement from the methods by which the finance charge might be calculated or the form in which the size of the finance charge might be limited. We are concerned solely with the manner in which the finance charge is expressed to consumers.

If we examine the present methods of disclosing finance charges we can detect two distinct patterns. Some finance charges are in a rate form. That is, they are presented on the basis of

a percentage in relation to some time period, a year or a month or on the basis of dollars per hundred dollars of unpaid balance in relation to a given time period. Others are in a dollar form. That is, the finance charge is presented in absolute dollar amounts. Which form is better for consumers? Is there some one form that can be adopted, a common denominator, by the majority of credit grantors in the interest of consumers?

These are questions of major significance to the consumer credit industry today. There are three basic reasons typically advanced for the interest rate form of disclosure as a supplement to the dollar form. (1) promotion of economic stabilization, (2) prevention of the excessive use of consumer credit and (3) improvement of the consumer's ability to compare finance charges. Let us examine each of these in turn.

First, with reference to promotion of economic stabilization. Even a Province as large and economically important as Ontario cannot expect to contribute significantly economic stabilization of the nation by requiring the statement of finance charges as annual rates. For that matter even a federal law would not accomplish this goal. Interest charges are only a small part of the total cost of credit serving consumers. In addition, because financial institutions obtain a large portion of their funds under long term arrangements only a portion of their total interest costs will vary over the business cycle.

Consequently consumers cannot expect to find that their financing costs will vary, or can't expect to find, that their financing costs will vary only slightly if at all from boom to recession.

Moreover this variation in the cost of credit will be such a small portion of the total cost of the product or service financed that it will not serve to encourage or discourage their use of consumer credit. For example, assume that the dollar add-on rate for financing new cars moves from $6.00 per hundred per annum to $7.00 per hundred per annum in a period of boom. An unusually large increase of 1/6th. On a 36 month contract the monthly payment on a $2,000.00 unpaid balance would rise from $65.56 to $67.22. This slight increase would hardly be expected to cause consumers to withdraw from the new car market and so dampen the boom. In contrast, reduction of credit charges during a recession will not attract buyers to the market when their outlook is pessimistic and when they fear loss of income. These unhappy days, as one credit man remarked, even the people who don't intend to pay aren't buying.

Because the demand for credit is largely derived in the demand for the goods or service acquired, changes in finance charges, however expressed, will have little effect on decisions to use credit. There is no evidence -- now with reference to preventing the excessive use of credit -- there is no evidence to suggest that the expression of finance

charges as simple annual rates will prevent excessive use of consumer credit. In the first place there is little indication that consumer credit is used excessively. The report of the Royal Commission on Banking and Finance states that most consumers "have made sensible use of instalment and other credit to acquire physical assets that yield them high returns not only in financial terms but in terms of convenience and ease of household living". Although there is no evidence that consumers in general are making excessive use of credit, it is clear that some consumers do abuse their credit. Unfortunately excessive use of credit is probably found most frequently among those who are least able to afford it. The question before us is whether or not statement of finance charges as annual rates will prevent the excessive use of credit by these individuals. As I shall try to show later, those who are economically and educationally deprived are least able to understand annual finance rates and most susceptible to concealment of finance charges however expressed. Thus a statement of finance charges as an annual rate may only add to their misuse of credit by giving them the apparent protection of provincial law but no real protection.

Now third, to strengthen consumer's ability to compare finance charges. Even if we cannot dampen the swings of the business cycle or protect the poor from excessive use of credit, we can still seek a more uniform method of stating charges so that

consumers who would shop for credit can make wise decisions to the extent that they shop more intelligently the market for consumer credit or perform more effectively to protect their interests. The choice rests between the dollar form of statement, the rate form or both dollar and rate as recommended by the Royal Commission.

Since the crux of the issue lies with the use of a rate form of statement, let us examine this proposal from the point of view of the feasibility for the industry and desirability for the consumer.

First with respect to feasibility for the industry. While true simple annual rate is not at all simple to calculate, there are a number of formulas available by which it can be approximated. So long as all credit grantors use the same formula for all transactions, adequate comparability could be achieved. The constant ratio formula used by the Royal Commission is most frequently recommended. While satisfactory for most uses it does produce bothersome inaccuracies in comparison of rates on contracts of differing maturity. For example, with add-on rates above $6.00 per hundred per year, the annual rate approximated by the constant ratio method appears to be lower on 18 month contracts than on 36 month contracts. However, the reverse is actually the case if one compares the two simple annual rates. This defect is of slight importance in relation to the other problems of feasibility.

You are undoubtedly aware of the problems of stating in advance the annual rate on revolving credit plans. Retailers have done themselves a disservice by referring to their charge as a monthly rate of 1½%. It is not a monthly rate. It is a charge amounting to 1½% of the balance at the beginning or end of the month. It gives to recognition to changes in the level of the credit balance during the month. In contrast, the rates charged by credit unions, moneylenders and small loan companies are monthly rates in that the dollar charge is determined by the amount of credit granted in actual number of days use. One must make three assumptions to equate the monthly charge of 1½% to an annual rate of 18%. First the charge must be levied on the balance at the beginning of the month. This seems to be a relatively uniform practice, although there are exceptions. Second one must assume that the first month's use of credit is free. Thus if one buys a $50.00 item on October 5, he must be assumed to have 26 days of free credit. Were we to take account of this period of time the effective annual rate would be less than 18%, but impractical to calculate at the time of the transaction. Know, however, that there are many other types of delayed credit plans where we would not consider the initial period as free in determining the annual rate. For example retailers selling furnaces or air conditioning units often offer consumers the opportunity to delay their first payment for several months. Consistency of treatment would

demand that the calclation of an annual rate covers the period of free credit on both revolving credit and delayed payment plans.

Third, one must assume that the payments on revolving credit accounts are made on the billing date, precisely 30 days from the date of the opening balance on which the credit charge is levied. This is an unrealistic assumption, clearly unsupported by the billing practices of retailers and the payment habits of consumers.

When one also considers that retailers often specify a minimum monthly charge, it does not appear feasible to provide a statement of a simple annual rate on revolving credit accounts and similar forms of open end credit such as cheque credit and charge account banking.

However, it is possible to state clearly in advance the method by which the charge is levied and to record monthly the dollar amount of the credit charge. It is certainly desirable that this information be given the consumer and it is generally the trade practice to do so.

A second area where it would not be feasible to provide consumers with a simple annual rate of finance charge is in the case of add-on contracts. Retailers often permit customers to buy on the instalment plan and to add new items to the contract with an appropriate adjustment to the number and amount of monthly payments. Sometimes only the number of payments and the amount of the last payment

are changed. In other cases the size, number and amount of payments are changed. While the retailer can, and should, tell the consumer the amount of the dollar finance charge on each transaction, the clerk on the floor would be incapable of ascertaining the simple annual rate. Moreover it is difficult to conceive of a manual that might be located in the central credit department that could quickly provide the simple annual rate as the credit purchases are telephoned in from the floor. A requirement that the finance charge be stated as a simple annual rate would virtually rule out this type of credit service or drive the price of the service into the cash price of the merchandise.

A third area of doubtful feasibility concerns instalment contracts with unequal payments, skipped payments and delayed first payments. For example school teachers request skipped payments over the summer months. The simple annual rate would vary depending on the time of year in which the contract was initiated and the maturity of the contract. Farmers, fisherman and loggers are other people who seek and obtain instalment contracts especially adjusted to their needs. Nor do all contracts require that the first payment be made exactly 30 days from the date of the contract. A survey of the loans made at the First National Bank of Boston, Mr. Robert Iery, Vice-President and officer in charge of the personal credit department found that of 601 loans made during one week in July, 1963, 14% had first

payments falling due less than 25 days after the loan was granted and 59% had a scheduled first payment in 35 days or more and only 4% in exactly 30 days. It is again readily possible and clearly desirable that consumers be told the amount of their dollar finance charge on instalment contracts involving unequal payments, skipped payments and delayed first payments. Through the use of elaborate tables it would be possible to provide information concerning the simple annual rate. However, the complexities involved would appear to rule against this type of credit adjusted to the needs of the consumer.

To summarize our conclusions concerning feasibility. It appears a statement of the dollar finance charges is always possible except in the case of revolving credit and other forms of open end credit. The dollar charge must be shown after the transaction rather than before it. It does not seem possible to show in advance the simple annual rate on revolving credit and add-on instalment contracts and it is cumbersome on a large proportion of contracts that are not precisely uniform as to spacing an amount of monthly payments.

If consumers are to shop among various credit sources all credit sources must state the finance charge in a uniform manner. This is fundamental. To require the charge to be stated as an annual rate would require exceptions with substantial areas of consumer credit. Rather than make exceptions

to accommodate the rate form of statement, it would seem preferable to insist on the dollar form of statement and allow no exception.

Now with respect to the desirability for the consumer. There seems to be no question that a statement of the dollar finance charge is desirable from the point of view of consumers. Even when consumers could easily calculate the dollar finance charge, they should be spared the effort and the dollar finance charge should be clearly shown on the face of the contract. The real issue is whether the statement of a simple annual rate adds enough to the understanding of the debtor to make it worthwhile in view of the costly difficulties of providing the information.

Essentially credit grantors are being asked to adopt a two price system -- dollars and rates. Similarly we might ask grocers to provide a two price system for the sale of eggs -- price by the dozen and by the pound. Let us focus our attention on the kinds of credit decisions faced by consumers in order to evaluate the proposed two price system. What type of comparison is the two price system supposed to facilitate?

Statement of the simple annual rate would certainly enable consumers to compare their finance charges to the rates of return they receive on their savings. However, this is not a major accomplishment. Studies indicate that users of consumer credit are not often faced with the alternative

of using savings or using credit. They use credit because they do not have adequate savings or because they wish to retain their hard won savings. Few are so deluded that they believe the rates earned on their savings exceeds the rates paid for the use of credit.

A more common and much more important decision to the consumer is whether to use credit to acquire a good or service now or to wait, save and buy later for cash. Here it seems crucial to provide consumers with a statement of the dollar finance charge. When we finance something we give up something. The advantage of having a television set today rather than later must be weighed against the golf clubs or a new dress that cannot be purchased because of the finance charge on the television set. Since consumers shop for golf clubs in dollars and not in percentages the dollar form of statement is highly significant and the rate form adds little to this decision unless it is confusion.

A third form of comparison that a consumer may wish to make is between the finance charges on instalment contracts of the same length. The apparent purpose of this comparison would be to obtain financing from the cheapest source available given the credit status of the consumer. If this is the sole purpose either the annual rate or the dollar finance charge will suffice, as may be seen in table 1. Here we see that we could look at either

the total time price or the finance charge or the annual rate and in all cases this evidence alone would lead us to select contract A.

If the consumer is not indifferent between these two credit sources A and B, which form of statement is most useful to him. If B, which is the higher priced store or contract is more conveniently located, does the consumer wonder if it's worth saving $5.00 to walk an extra mile or does he relate the walk to the saving of 3.0%? As in the previous example consumers probably judge sacrifices best in terms of dollars. Five dollars will buy something whereas 3% will not.

Finally, a consumer may wish to compare the finance charge on a 12 month contract with that on a 24 month contract. Presumably the purpose would be to determine if the lower monthly payment carried by the longer contract were desirable or to see if one contract were cheaper than the other. This poses a very difficult conceptual problem for which I have no ready answer. Let us assume the two alternative contracts shown on table 2. Here we see the alternatives of the 12 month contract versus the 24 month contract. If we take the 24 month contract it will lower our monthly payments from $27.50 per month to $14.75 per month. And, as one might expect, the annual rate on the 24 month contract is a little lower than the annual rate on the shorter contract. The annual rate on the 24 month contract is 17.3 as compared to 18.5 on the 12 month contract.

Which contract, however, is cheaper depends on your concept of the cost of credit. In terms of dollars contract A is cheaper -- a $30.00 finance charge as compared with a $54.00 finance charge. In terms of annual rate contract C is cheaper -- 17.3% rate as compared to an 18.5% rate. This divergent information is the penalty of a two price system. How would we advise the consumer. If you were advising your son or daughter, how would you advise them as between contract A and contract C? Would we recommend that he seize the opportunity to lower his monthly payments and at the same time save 1.2% per annum or do we warn the consumer that the penalty for stretching out the maturity of the contract in order to lower the monthly payment is an added finance charge of $24.00? Percentages give one message, dollar amounts another message. To me the dollar figures give a meaningful message and encourage the consumer to save money by selecting the shorter contract. The percentage figures alone give an incorrect message and the combination of percentage and dollars give static. However, my views cannot solve the problem, they can only raise an issue.

Finally we must consider whether it is fair to consumers to create a situation in which some but not all credit grantors will be in a position to bury a portion of the finance charge in the cash price of goods and services sold on credit. If legislation is properly drawn the cash lenders cannot

bury their finance charges and so will be at a competitive disadvantage over those offering sale or vendor credit. Legislation should encourage fair and open competition, not handicap one segment of the industry at the expense of another or encourage the deception of consumers under the guise of protecting them.

The Royal Commission has noted that "the effective competition will keep the cash price at realistic levels". Let us examine this assertion. First we can point to a number of types of consumer credit where finance charges are already buried in the cash price. In these cases effective competition is evidently not operated to reduce the cash price. This is true of regular charge accounts at department stores, gasoline credit cards and other credit card arrangements. Second, the assertion implies that whereas consumers do not shop wisely for credit they will suddenly become shrewd and shop to compare cash and credit prices. Probably those who are most abused by the combination of high pressure merchandising with credit are those who are least able to afford it. In his excellent study of the shopping habits of the poor people of New York City, David Kappelvitz observes that these people are victimized because they do not comparison shop. They do not compare cash prices nor do they compare time and cash prices. If the rate form of statement were required the door-to-door peddlar can easily build all or a portion of the finance charge into the cash price. He

does so already with the dollar charge. If his customers do not compare cash and time prices now why will they suddenly do so if the rate form of statement is required?

In fact you do these people a disservice by passage of legislation that is alleged to protect them when in reality is offers unscrupulous credit sellers one more means of deceiving their prey.

Finally, we should recognize that it would be relatively easy to build a portion of the credit charge in the cash prices. Especially when competitors are doing the same thing. At the moment there is no great incentive to do so with the result that there is a reasonably fair price discrimination between the cash buyers and credit buyers at department stores, for example. On a six months revolving credit plan with free credit for the first month, a 1½% charge in each month adds up to 5¼% to the total cost of the merchandise because of the monthly reductions in the unpaid balance. At present the retailer is happy to have his credit customers bear a portion of the cost of credit. If faced with the alternative of advertising his rates, incorrectly as we have seen, at 18% per annum or burying 5¼% somewhere in a combination of higher prices or lower quality or fewer services and so on, one can hardly blame a retailer for joining his competitors and burying all or a portion of the finance charge. He would appear thereby to offer a lower rate than the credit unions or chartered banks

but in reality this would not be the truth but a deception.

It should be added that the credit retailer is not immoral for following this practice. When he sells an item he offers a package of services, credit, delivery, display, advertising, convenience of location and so on. He is free to price these services separately or to recover their cost in the prices of the merchandise. He must achieve that combination of prices that will gain him the greatest return. To interfere directly in his price strategy would involve the provincial government in the most intricate for of price regulation.

In summary my recommendation would be that the dollar finance charge be clearly stated at the inception of the transaction on all forms of consumer instalment credit offered by all types of credit grantors, with the exception of revolving credit and other forms of open end credit. For the latter type of credit the method of calculating the finance charge should be clearly stated on the agreement made with the consumer, the dollar charge shown on all subsequent bills.

There are other important matters also under consideration by this Committee. These are possible limitations on downpayments, right of repossession, cooling off period and standard forms of contracts, warranties and so on. Let me comment on these briefly.

Limits on downpayments are designed to restrict or encourage the use of consumer and instalment credit in order to counteract the business cycle. When adequately administered they are generally effective in influencing the volume of consumer instalment credit. However, one should not underestimate the difficulty of enforcing the regulations and determining, for example, whether the car traded in actually provided sufficient value to meet the legal requirements. More important determination of the proper timing and degree of control on downpayments is extremely difficult. As we demonstrated in the United States, it is easy to overdo the control and bring about a recession or delay the control and thus let the boom run to excess.

Finally, control over downpayments squeezes only one segment of the consumer credit market. Cash lenders would probably find their business rising while those offering vendor credit would be forced to contract. For example, in the United States when we had regulation W, small loan companies financed an amazing amount of medical bills. Doctors were getting paid all over the country. This is unfair and substantially reduces the effectiveness of control. In short the difficulties of administering regulations on downpayments equitably seem almost insurmountable. It would appear better to leave consumer credit to the operations of general monetary controls.

With respect to right of repossession. Probably the right of repossession should be placed in the fuller context of collection laws. Without more adequate knowledge of Canadian law let me make only two comments. First there is an intimate relationship between the rights of the credit grantor and the rights that he must be allowed. If you restrict his rights to prevent or reduce credit losses you must at the same time allow him a higher rate to cover those credit losses. Since Canadian small loan companies are already restricted to very low rates, weighting the right of repossession more in favour of the creditor -- debtor, rather, excuse me, typographical error -- would suggest an even greater need to raise the allowed rates on small loans.

A second point is that unusually harsh collection laws appear to foster consumer credit bankruptcies. For example, if garnishment laws absorb too large a portion of the consumer's income, he can hardly be blamed if he takes the easier way out through bankruptcy. The conclusion seems to be that the law must protect the rights of credit grantors to a point so that the good risks do not have to pay too much for the poor risks. However, the law should also prevent undue harassment or deprivation of the consumer.

With respect to the cooling off period. While I have not studied the matter with care it does seem desirable to have a period of three

or four days during which the buyer of goods or services outside of an established retail store could withdraw from an instalment contract without penalty. Many of the credit abuses cited by Kapplevitz in his book The Poor Pay More stem from the door-to-door seller. The housewife trapped in her home by a high pressure salesman deserves the opportunity to be rescued from the contract when her husband comes home. Undoubtedly problems will lie in forcing the spirit of the law, but this is one area in which vigorous enforcement appears to be especially desirable.

Few consumers are willing to take the time to read through the fine print in most instalment contracts. In view of this fact it seems particularly desirable to make such contracts as uniform as possible so that the consumer faces the same legal situation each time he secures instalment credit. The dollar finance charge and the total unpaid balance and the number and amount of monthly payments should be prominently displayed. We could also invent a device which could prevent consumers from signing contracts in blank and make a major contribution to the wide and effective use of consumer instalment credit.

If I can expand or clarify parts of this analysis I would be very happy to try to do so.

THE CHAIRMAN: Thank you, Professor Johnson.

Mr. Sedgwick, would you like to --

MR. SEDGWICK: I have only one or two questions. This question has been asked of other witnesses. Do you know of any jurisdiction which has adopted legislation providing for a statement of the charges as a percentage rate?

MR. JOHNSON: The state of Connecticut allows credit grantors to state either the dollar charge or the annual rate

MR. SEDGWICK: But it does not compel them to state the percentage rate?

MR. JOHNSON: It does not compel them to state the percentage. I believe that in Hawaii industrial banks must state the percentage on their contracts.

MR. SEDGWICK: I see. Then do you know of any jurisdiction which adopted legislation of that kind and later abandoned it?

MR. JOHNSON: No, sir. It would be nice if we could persuade some state to try it out. But unfortunately no one is willing to volunteer.

MR. SEDGWICK: Oh and then, you are of course familiar with the Douglas Bill and you are familiar with that provision in it which is in section 4, paragraph 7, which says "amongst things which are to be disclosed is the percentage which the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation." What is the present position legislatively of that

Bill, Professor?

MR. JOHNSON: It was of course defeated in the main committee and referred back to the subcommittee. The last draft I saw Senator Douglas had backed off from a common denominator and on the revolving credit or open end credit would permit those credit grantors to state the rate as a monthly rate and it seems to now be coming up with two common denominators in terms of rate -- one an annual rate and one a monthly rate and then of course in all cases it would require the dollar charge.

MR. SEDGWICK: I see. Well then, I'm looking at page 10 of your brief -- it has been said to this Committee that while it may be difficult to work backward from the dollar rate to find the percentage, the lender or giver of credit is always aware of the rate that he is charging and therefore it would not be difficult for him to state it.

MR. JOHNSON: It would be possible on uniform cash loans to state the simple annual rate on the assumption that the contract is going to be fulfilled precisely in accordance with the terms of the contract and so that cash lenders could get a manual from some financial publishing house and could come up with an annual rate. Now when you introduce variations such as a delay in the first payment or skipped payments and so on, then you get into quite a substantial manual. I just was fiddling around last night and assuming that a bank made loans of $100 to $3,000 in ten dollar steps, it would give them 290

different sizes of loans. And assuming that maturities ranged from 3 months to 36 months, giving them 34 different types of maturities, and assuming that the date of first payment ranged from 15 to 45 days -- which is probably, well let's say give them a fair lag in the first payment from 15 to 75 days, which gives them 60 different alternatives there. 290 times 34 times 60 is, if my arithmetic is right, and it seldom is, gives you 591,600 different contracts and since each contract would have to specify four main items -- the monthly payment, in even dollars, the dollar finance charge, the percentage finance charge and the uneven amount of the last payment -- this would give him a table (again subject to my bad arithmetic) some 2,366,400 entries. So that while it is possible, one ends up with a pretty cumbersome manual. And I have not yet in these calculations -- because I got sleepy -- determined how many variations would be introduced by skipped payments.

MR. WHICHER: Do the banks in the United States give the interest rates on each one of those loans now?

MR. JOHNSON: No. In the banks in the United States they will show, for example in New York State law, the banks in New York State are required to show the dollar finance charge. No bank to my knowledge in the United States shows the simple annual rate. The banks in Michigan, for example, show on the note only the number of payments

and the amount of each payment. I don't think this is good because I think it should show the number of payments, the amount of each payment, the amount of credit extended and the dollar amount of the finance charge.

MR. WHICHER: In Canada is it not correct that the banks do show the interest rate now on each and every note?

MR. LAWRENCE: No. I don't think so.

MR. WHICHER: Yes but on a simple one -- 90 days after date I promise to pay $500.00 to the Royal Bank of Canada at an interest of 6% --

MR. SEDGWICK: Oh, yes, they show it on that.

MR. JOHNSON: This is not an instalment note though.

MR. SEDGWICK: Oh yes, on all fixed obligations it presents no problem. Indeed you have to do it, to make a bill or note that complies with the Bills of Exchange Act, you can't approximate your interest, you must state it and you must state whether that applies before or after maturity. But that poses no problem.

MR. OLIVER: How many less would there be if the stipulation was removed that they had to put the percentage on?

MR. JOHNSON: Well, part of the problem is if you eliminate the percentage -- let me go back to the First National Bank of Boston. You may have delayed first payment, as I said, ranging anywhere from

15 to over 45 days -- I don't know how far over 45 it goes -- they don't vary the dollar finance charge. In other words, the dollar finance charge would be the same on any one of those 60 alternatives. Because it is too much trouble for them to try to vary the finance charge and allow for that lag or acceleration of the first payment. I couldn't figure it out quickly for you here, but you eliminate that 60 entry item. You would eliminate all of those variations attributable to the lag in the first payment simply because they show the dollar finance charge and they don't worry about whether they are getting 11.2 or 11.7 or 12.1 --

MR. OLIVER: If the dollar finance charge was constant wouldn't the percentage charge also be constant?

MR. JOHNSON: No. You see, if I lend you $500.00 and charge you $1.00 finance charge on each hundred dollars to get me a nice rate. If I lend you that amount of money it makes a considerable difference to you as to when you start making payments on that note. If you start 15 days from now it's a pretty high rate, whereas if I allow you to delay for 50 days until your first payday, then the rate goes down substantially and it's most affected by that initial period of delay because of the time value of money. That first payment has the greatest effect upon the simple annual rate. So a $100 finance charge on a $500 credit is -- the dollar finance charge is constant but the rate will vary depending on

when your first payment is.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Mr. Chairman, Professor -- should I call you Professor or Dr. Johnson?

MR. JOHNSON: Either way. Bob Johnson is the common way.

MR. IRWIN: I should say before I ask these questions that I have studied the same subject matter as you have and I am also a chartered accountant in public practice for a number of lending institutions, with whom I have discussed these problems at some length. I have to say in all fairness that my conclusions from my studies are almost totally contrary to your.

I would like, rather than deal with a particular statement in your brief, it might save a lot of time if I put the questions to you in more general terms to see if we can reconcile some of the conclusions that seem to be evolved from the same basic information.

First I think to set this in proper perspective, the terms of reference for this Committee as I understand them, are to take a broad look at the entire gamit of all credit granting facilities in the Province of Ontario, not only cash loans but purchase loans. So we have looked at mortgage lending, at institutional lending by trust companies and insurance companies, by people operating under our Small Loans Act, by people dealing in retail conditional sales contracts and also by department stores dealing

in revolving credit and budget plans or add-on purchase arrangements.

With that in mind the Committee is attempting to discover some common means of expression and declaration throughout the entire lending industry and we aren't confining ourselves to the revolving credit purchase, add-on type of contract.

With that in mind, if I may make the comment, it would appear to me that in pages 5 to 11 where you are dealing with the difficulties of the feasibility, that you are confining yourself almost entirely to the difficulties related to revolving credit or add-on type of contract and as far as I can detect have said nothing in your brief in regard to all other forms of lending with which the Committee is concerned.

I agree with you that if you are confining your remarks solely to the feasibility of expressing finance charges as a rate percentage only in respect to revolving credit and the add-on type of contract, then to a very large extent your remarks are -- I agree with them because I have found that there are very substantial difficulties in this type of contract.

However, having said that I would then ask you if you felt that your remarks, which are apparently related to that type of contract, would also apply to all other types of lending?

MR. JOHNSON: Well, with equal validity. I would quite agree, I think it excellent that this

Committee is examining the whole field of consumer credit, all aspects of it. This is one of the great deficiencies of the Douglas Bill in that it deals only with one small portion of the consumer credit contract. And as you may know in the United States there is at present a very mammoth study under way by the National Conference of Commissioners on Uniform State Laws to try to develop a uniform consumer credit code or a model act which would cover disclosure among many other facets. So I think this is an excellent approach and vastly better than the Senate Committee on Production Stabilization.

However, when we start to examine I think we should make a break between commercial credit and consumer credit, although problems of making that break are fairly considerable. When Mrs. Murphy finances a refrigerator to put in her boarding house, is that consumer credit or commercial credit? Leaving that aside, let's say we can define somehow what we mean by consumer credit. Well, within that area I think it is perfectly valid to search for a common denominator. My point would be that it must be a common denominator. You must have the consumer faced with alternative sources of credit, all of whom are stating the charge in the same manner. The reason that I emphasized the problems of retail credit is because this is where the problems lie.

MR. IRWIN: Could I correct you to say there are forms of retail credit granting that don't involve the revolving credit or add-on credit

type?

MR. JOHNSON: Right. And there they could show the simple annual rate on the assumption of the contract.

MR. IRWIN: In other words if we are dealing with a conditional sales contract as we know it in Ontario where, at the beginning of the contract, the principal amount borrowed is known and declared, the total finance charges are known and declared and the aggregate of the payments are known and declared, would you agree that there is no great mathematical difficulty in determining a rate percentage which would be approximately accurate if you used the constant ratio method but would be in fact accurate if you used an actuarial method.

MR. JOHNSON: Certainly.

MR. IRWIN: So that where you are dealing with the type of contract such as a conditional sales contract or the small loans contract or a mortgage contract, that there is no mathematical difficulty about reaching a very, a fairly accurate rate by known methods.

MR. JOHNSON: Yes. My point is that if some can abide by the law and some cannot abide by the law -- and I think we agree that some can and some can't -- then I think our point of disagreement is that I am unwilling to pretend that we are enabling the consumer to shop for credit. In fact we do not enable him to shop for credit if we have developed a

common denominator which in fact is not common. If the consumer will be told the simple annual rate when he buys from a sales finance company but he physically cannot be told the simple annual rate when he finances the same item for the same dollar amount but puts it on an add-on contract.

MR. IRWIN: I quite agree with you, while in my opinion it is both feasible and practicable to require disclosure as a rate percent. I am not recommending it, I am simply commenting as a presumed qualified person to comment. You would agree that it is feasible and possible to require this type of disclosure in all other forms of contract except the revolving credit or the add-on?

MR. JOHNSON: With the provision, of course, that I think the effect will be to rule out variations in the contract made for the benefit of the consumer such as skip payments and delayed first payments.

MR. IRWIN: I think the skip payment situation could be dealt with later. I think that it can be dealt with. I just wanted to establish the area of our agreement and disagreement. In fact we agree that -- if I interpret correctly what you said -- that with respect to all other forms of contract it is feasible to declare a rate, determine a rate, on a fairly accurate basis, but the revolving credit or the add-on purchase type of contract is an animal of a different colour and might have to be dealt with differently.

MR. JOHNSON: Yes. If we can amend it to say mathematically feasible. It may not be economically feasible.

MR. IRWIN: Well, this I agree, it may not be. Let's say there are other considerations than pure mathematical feasibility or even adminis - trative feasibility. This I would agree with. But I think it is important to establish that your comments are, as to feasibility, are related only to revolving credit and the add-on type of contract. Is that correct?

MR. JOHNSON: With indications of economic unfeasibility --

MR. IRWIN: Yes, that's granted. Well then we are not so far apart as I had thought. I want to emphasize that there is agreement then as to all other forms of contracts as to feasibility.

One other general question I would like to ask. This suggestion has been made here in a number of cases, a number of sections, and that is the general thought of there being some form of incomprehensibility if you are using a percentage rate. That this could be confusing to the consumer, that he wouldn't understand it. I must admit that here we are in an area of opinion rather than fact. On feasibility I think we are in an area of fact that can be established while the area of comprehensibility is an area of opinion. But this is how it appears to me and I would like your further elaboration on this. For instance you refer, on page 12, to the two price or

two standard comparison and you quote about the consumer going to buy some eggs. This is how I view the thing and I am glad you introduced the egg situation because when a buyer goes into a grocer and he wants to buy some eggs and he wants to know the price of eggs. Because of other standards of quantitative and qualitiative measurement that have been written into the laws or into the practice. The borrower goes in to grocer A and says: "How much is the price of eggs". And he tells him .55¢ and he goes into grocer B and he tells him the price of eggs is .60¢. Now the interesting thing to me is that the consumer only asks to compare the price because he knows that the standard of quotation is a dozen eggs of grade A. Now when you get to the case of money how can you quote money in terms of money? In other words where is the evaluation of money analogous to a dozen eggs? If you want to measure the value of money I submit that you cannot use money as the standard measurement of the quantitative amount received.

MR. REILLY: Why not, it's being done every day.

MR. IRWIN: You should not, let's put it that way because of this. When economists want to determine the value of money in 1960 as compared with the value of money -- of the dollar -- in 1940, they don't use dollars to express the valuation. They compare it with the change in a standard price level. I think this suggests that you can't measure the change in the

value of dollars by dollars. Similarly I don't see how you can measure the value of the dollars lent to you by lender A or lender B in terms of dollars themselves. You have to have a quantitative measurement and I suggest that the quantitative measurement that is taught in our schools and is used as a quantitative measurement by mortgage companies, by banks, by small loans companies, by sales finance companies and so on, is a percentage rate. In other words, so many dollars per hundred dollars for one year.

MR. REILLY: That is used by everybody except the consumer.

MR. IRWIN: Well, I'm not arguing the case, I'm just asking for an opinion. Is it not true that the way of measuring the quantitative value of dollars received is in terms of percent with the meaning in this case being the amount of charge made for the use of $100.00 for one year. And this is mathematically shortened into percent per annum.

MR. JOHNSON: Again I think one has to get back to the purpose for which this measurement is being made. And keeping in mind that it is the consumer's interest we have in hand rather than the businessman's interest we have in hand. If one gets back to the purpose then I would still feel he gets back into this classification of I want to compare contract A versus contract B. If that's the purpose it is just as easy to look and say one has a $35.00 finance charge and the other has a $30.00 finance charge. Or even more, if you want to go to different

terms then I think you get into a thoroughly mixed up situation, again referring to page 14 of my testimony in table 2 where you have dollar finance charge giving you one message and the percentage finance charge or rate giving you an entirely different message.

MR. MACDONALD: May I interrupt? If our purpose here is to resolve a mixed up set of circumstances that make it difficult for the consumer to come to a conclusion, isn't the only way to solve it to come to a common standard of how it is presented?

MR. IRWIN: Well, I think one has to get into the actual transactions that the consumer is faced with. I think professors tend to argue in terms of percentages because this is the way professors think, or the way they think they like to think. But I think if one goes out to the consumer who is faced with saving or buying something now or between buying a refrigerator from this retailer or financing it from a small loan company, he is faced with a somewhat different conflict than we are used to thinking of in commercial transactions. He is faced with saying shall I go for a 24 month contract rather than a 12 month contract and thereby lower my monthly payments. I don't see that you have helped him one bit making this decision by telling him: "Ha, if you will only lighten the term of the contract you lower your annual rate from 18.5% to 17.3". I think we have to think through to the kind of transaction the consumer faces, not the kind of transaction

a bank faces or an automobile company faces. We have to get down to the consumer's alternatives.

Here is the consumer in Ontario -- I am talking about the average consumer, myself as a consumer or many people I meet in the course of my business -- how can it possibly help this man, how can it help but confuse this man if, here is the average citizen, he has bought a house with a mortgage and it is quoted to him as a percent. He has bought a Canada Savings Bnnd and it is quoted to him as a percent. He has some savings in the bank and it is quoted to him as a percent. He wants to borrow money and he goes to the bank and it's quoted to him as a percent. Now he goes to buy a car and the percent measure disappears. Now how is he helped by suddenly finding the method of expression changed?

MR. JOHNSON: Well, one can have different methods of expression within different markets. He is not faced with a choice between buying a house and buying a television set.

MR. IRWIN: Why does it differ? It doesn't differ. He is still dealing with borrowing money.

MR. REILLY: As you pointed out, Mr. Irwin, when he goes for a mortgage he goes for money, when he goes to a bank he is going for money, when he buys a bond he is borrowing money. Now where's the difference?

MR. IRWIN: Well, let's ask Mr. Johnson that. What is he buying when he buys a car and

he has to finance it?

MR. JOHNSON: He's buying a transportation service.

MR. IRWIN: No. When the dealer tells him, "Here, it all adds up and you owe me $1,000.00". What is the consumer buying. He has already bought the transportation by signing the contract. He could have bought the transportation with 100% of the cash price. I ask you as an economist what is he buying with regard to this $1000.00.

MR. JOHNSON: He is buying essentially three things. He is buying services in the sense of somebody investigating his credit and making a monthly collection.

MR. IRWIN: Is he not doing that if he buys from the bank?

MR. JOHNSON: Sure, any consumer credit --

MR. IRWIN: Sure. There is quite a difference there, isn't there?

MR. JOHNSON: He is buying an assumption of risk on the part of the credit grantor.

MR. IRWIN: Is he not doing this if he gets it from the bank?

MR. JOHNSON: And he is buying what an economist calls forebearance. That is, that the bank or the credit grantor --

MR. IRWIN: At the bank he is paying for the same thing. So the three factors you mention are common. Those three factors are common if he goes

to the bank or to a small loans company or to the dealer. So where is the difference.

MR. WHITE: Well Mr. Johnson is arguing that the bank would'nt show the charge in full.

MR. JOHNSON: There is no question that the bank would show the dollar charge too.

MR. IRWIN: No, but they are not doing so now. And a lot of other lending sources are not doing so now. So why reverse the trend that has been clearly established in Canada at any rate, and in Ontario at any rate, the majority of the credit sources are using a percentage rate. Why do we switch over when we come into another type of situation? Granted related to, but only related to, a consumer purchase?

MR. JOHNSON: Well, for the reason --

MR. IRWIN: Because the three factors you mentioned are common.

MR. JOHNSON: For the reason you expressed. You are moving from a commercial area to the consumer area.

MR. IRWIN: Well the consumer here in Canada -- I don't know how it is in the States -- but our banks, our chartered banks, are very active in personal loans and a man buying a car actually has a choice. He can go to the bank, he can go to a small loans company, he can go to a sales finance -- well, he can't go direct to a sales finance company -- or he can go to a dealer.

MR. JOHNSON: Well, my argument would

be that if I were advising a consumer actually, once he determines the car he wants and the maturity that he feels he can afford, then I would say to him: "Shop around, find the lowest time price".

MR. LAWRENCE: You might advise him to go to the banks. He might find he can get it cheaper there.

MR. JOHNSON: He might very well. I'm certainly not holding forth that the banks ought to express a percentage because particularly if it said a 6% discount and in effect this is confusing, it is not equal to a mortgage rate of 6%. I'm arguing -- and I thought I made the point in my paper -- that when a consumer goes out to shop for credit he should have a common denominator. It seems to me in the consumer credit field the common denominator that is meaningful is the common denominator that the consumer uses to shop for all his products, the dollar.

MR. IRWIN: But apparently in Ontario this isn't true. If he goes to the small loans he has to be quoted a percent. It's required by law. And he knows the dollar charges as well. If he went to an institutional lender, one of which is represented here, he will be quoted a monthly rate percent. And the dollar charges. Now I can't understand -- there is, in fact, the common denominator in practice, in substantial sources of credit in Ontario, but the same standard is not expended over into this dealer contract. Now if we are looking for a common denominator

why should we abandon the practice in a substantial part of the field that is already established in order to adopt an alternative method which is used in another part of the field.

MR. JOHNSON: Well, esentially you are looking for a common denominator. I think we would agree on that. And I thought you and I had agreed that there was one common denominator that could not be common, namely the percent per annum.

MR. IRWIN: No. Only in respect to revolving credit is there any difficulty about the means of expression. We are dealing here with the purchase of an automobile from a dealer and I know from experience because I deal with many dealers of automobiles, and the contract is the standard time payment contract with no variations.

MR. JOHNSON: Doesn't it show the dollar finance charge?

MR. IRWIN: Oh, yes, but it does not show the percent charge. And yet you agree that it could show the percent charge without too much difficulty.

MR. LETHERBY: Well, Mr. Johnson, I think this is your view. According to Mr. Irwin if you buy a home the mortgage company spells out the interest charge. If you go to the bank and borrow money they say it's 6%, and so forth. You are maintaining why in hell can't they say this is going to cost you so much money in dollars to borrow this. Suppose they say in the bank, all right, the rate is 6% and then

I ask in return how much is this going to cost me to repay the loan in dollars and cents to borrow that amount of money. Is that your argument?

MR. JOHNSON: Exactly it.

MR. IRWIN: Well of course I don't disagree with this. I agree that those who now are quoting in percent should also continue to quote the percent and dollars. Therefore everybody should quote interest in dollars --

MR. LETHERBY: That's my argument too. Wouldn't it be nice if the borrower could at the same time find out how much in both, so he can tell his mother and his grandmother how much it is costing.

MR. IRWIN: In other words we should be looking for two common denominators. But these two common denominators are not common. You might say two methods of expression -- that everybody quote in dollars and cents and then -- (rest inaudible)

I would like to refer in particular to your illustration on page 14 in which you pose the question as to how does the consumer evaluate the 12 month and the 24 month contract. You point out that the 12 month contract is a higher rate but a lower dollar finance charge and the 24 month contract is a lower rate and a higher total finance charge. Now I grant you that this is a question of opinion. But again I am dealing practically -- I emphasize the fact that I have had many years experience in business dealing with businessmen, working directly with the consumer in some instances, and this problem presented

to the consumer is evaluated, in my opinion, in this way. It is quite true, as Mr. Letherby points out, he must know how much is this going to cost him in dollars and he wants particularly to know how much does he have to pay per month, in order to finally reach a decision. But the interesting thing is, and I draw this from experience, that under contract A he has to raise $27.50 a month and under contract B he only has to raise $14.75 a month. Frankly my experience is he will elect the 24 months contract for the very good reason that he has another 12 months income with which to meet the extended payments and as a young man, let's say, struggling to get started, and I have a daughter and son-in-law who are facing this problem, they actually elect the 24 months contract because it's easier to carry. In other words it's a squeeze on them if they have to take the 12 months contract at $27.50. It's much easier for them to carry the burden if it's only $14.75 for the first 12 months and then there is another 12 months' income with which to carry the other $14.75 and at the same time they are getting a lower rate.

MR. REILLY: Mr. Irwin, on what does your daughter and son-in-law base their decision.

MR. IRWIN: Largely on my advice. For heaven's sake take the $14.75.

MR. REILLY: You would advise them to take the $14.75.

MR. IRWIN: That is quite true, Mr. Reilly. I have never suggested that this isn't a vital

piece of information. But at the same time -- take the position of my own son and daughter as an example. They wanted to buy a new car and I didn't interfere with it in any way. They went around and shopped for their credit. And they came back and said: "My golly, we can get a loan from the bank for $1,500.00 at 6% and this is what we are going to take". Why? Because they had come to me with the dealer's scheme and I said: "Well, you know you are paying 15% here". So then they went to the bank and they came back joyfully with 6%. See? This is what we are going to do. So I said: "Well, wait a minute. If we work it out really you are going to be paying 12,"say, so that sort of cooled off the bank's proposition. Finally the decision was made and they did go to the bank -- I'm not promoting the banks here -- with all deference to those present -- but they did go to the bank on two counts. The bank was willing to give them a 36 months contract, which is an awful long contract, as opposed to the 24 months contract of the dealer. The monthly charges with the bank were less because of the longer contract and the rate of interest was less. So having had all the factors presented to them they made their decision. I just suggest to you that a 24 months contract, even on the basis of a dollar statement only, in most cases for most people is a more attractive proposition.

MR. JOHNSON: If you had told your daughter and son-in-law that the 26 months contract was cheaper than the 24 months contract?

MR. IRWIN: Yes, I did, and I know what you are coming to. In dollars of finance charges they are paying more under the 36 months contract. There is no question about that. But considering that they have two more years income to meet those extra charges and they are in fact getting a lower rate per hundred per annum, they are getting a cheaper deal.

MR. MACDONALD: You should have given them a cheque and saved them a lot of trouble. (Laughter)

MR. IRWIN: That's about it, Dr. Johnson. I hope that doesn't mean you are for longer and longer terms on consumer credit.

MR. JOHNSON: Well actually that is the tendency as you probably well know, they are getting longer and longer.

THE CHAIRMAN: Mr. Whicher? Do you have any questions?

MR. WHICHER: No, I don't.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: No, I haven't. This Committee hasn't done me much good. Because within the last two or three months, after sitting here for three years, I went out and borrowed $30,000.00.

THE CHAIRMAN: Mr. Lawrence?

MR. LAWRENCE: No.

THE CHAIRMAN: Mr. MacDonald?

MR. MacDONALD: Mr. Chairman, I want to examine something on page 11 to see if I have got it

clear. On page 11 you say: "If consumers are to shop among various credit sources, all must state their finance charges in a uniform manner. This is fundamental. The requirement that the charge be stated as an annual rate would require exceptions in substantial areas of consumer credit. Rather than make exceptions to accommodate the rate form of statement, it would be preferable to insist upon a dollar form of statement to allow no exceptions." Now, if I understand this correctly from Mr. Irwin's discussion with you, you have really examined only the revolving account form of credit, not the whole field?

MR. JOHNSON: Well I have, outside of the Committee, examined the whole field, but since time was limited, the major problem of providing the information that Mr. Irwin would like, lies in the field of vendor credit.

MR. MACDONALD: Well the thing that puzzles me though is you have gone through an analysis of the difficulty of relating it to this one area, and a relatively small area of consumer credit, and then you suddenly come to a conclusion that all must state the finance charges in a uniform manner. And therefore you plunk for the dollar. Are you doing this because this is the only way you can do it and not make an exception?

MR. JOHNSON: I am not sure how unsubstantial it is if you add up the total of revolving credit, cheque credit, charge account banking and other

forms of open end credit that may yet come along. For example in the States I just read in the Wall Street Journal the other day that Carte Blanche is going to start financing hospital bills, which would again be a form of open end credit.

MR. MACDONALD: Well I don't know whether any purpose will be served in getting clarification as to what percentage the revolving accounts are to the overall, but I would think it would be in the range of 10 to 15%.

MR. SEDGWICK: I wonder if he is right. On October 20th in presenting a brief to a House of Commons Committee the Chairman of the Committee, Mrs. Wilson, on planning of consumers organizations gave these figures -- and they are interesting -- DBS figures of balances outstanding in millions: Sales finance companies for consumer goods, 942 million; small loan companies for cash loans, 786 million, small loan companies for instalment credit, 49 million and then department stores, 419 million.

MR. MACDONALD: How much?

MR. SEDGWICK: 419 million.

MR. MACDONALD: What percentage is that of the overall?

MR. SEDGWICK: Well, I'll give it to you in a minute. Appliance stores 188 million and then answering a question that was asked yesterday as to whether the banks are important -- chartered banks personal loans 2,168 million or something close

to 50% of the total. So the banks are a very important factor. Somebody asked yesterday whether we could go ahead although we do not control the banks. You can see from those figures they represent something better than 40% of the total amount of personal loans.

MR. MACDONALD: Yes, but are we arguing the same point? I'm talking about what percentage of the overall of consumer credit is in revolving credit accounts.

MR. SEDGWICK: I don't know, but assuming that the figure for department stores, 419 million, represents mostly revolving credit --

MR. IRWIN: The representative from the department stores said it is about 40% of all their sales.

MR. SEDGWICK: These aren't total sales. These are end of June balances outstanding in millions. So they wouldn't be the kind of credit that you just pay during the month. I don't know how much of that would be revolving credit, but the department stores are 419 million.

MR. IRWIN: I checked with Eaton's and Simpson's and the figure is roughly 50% of their balances are just on sort of open account basis and the others are standard.

MR. SEDGWICK: If that is true throughout, there would be something of the order of 208 million dollars, which isn't an inconsiderable figure.

MR. MACDONALD: Only one tenth of the

banks alone.

MR. SEDGWICK: That is true.

MR. MACDONALD: Therefore it would be only 3 or 4% of the overall.

MR. WHITE: Well are you arguing that it is not significant and we shouldn't include it then?

MR. MACDONALD: I'm not arguing that it is insignificant. I'm just countering the argument that Professor Johnson was making that this is very important. He even tried to bolster his argument by saying there are a lot of new fangled revolving credit things that may be coming in. But let's deal with reality. The reality is that revolving credit is only 3 or 4 or 5% of the overall picture, at least in the Province of Ontario.

MR. SEDGWICK: These are Dominion figures.

MR. ROWE: I think it is important as a total dollar value, but what we are trying to get at is the number of people involved.

MR. MACDONALD: That may be true too, but I want to come back to the basic point I was making. The analysis of the difficulties with reference to revolving credit, and at least on volume in Canada, this is 3 or 4%. So in Canadian terms the solution that you come to -- because of the difficulties in coping with a volume of 3 or 4% and the difficulties of stating percentage, you recommend a standard procedure that will deal with them and will ignore the other 97%.

MR. JOHNSON: Well, let me make two points. First of all with dollars obviously wouldn't ignore the other 97% because they would be required to show dollars as well. But also let me point out on the basis of the analysis and on the figures just provided, that there is some, according to my arithmetic, some 1,410,000,000 of consumer instalment credit which would be subject to the burial problem. I am adding the amount in the hands of sales finance companies, the 49,000,000 small loan companies and the 419,000,000 in department stores -- if my arithmetic is correct that is 1,410,000,000. This is no small percentage or dollar amount and the essential point here is you are setting aside two segments of the industry. You are telling the cash lender: "We are going to draw a law properly so that there is no possibility of your burying the finance charge" -- and I hope you do, but you are saying to those people offering vendor credit: "You must state the dollar finance charge but of course we don't want to get into price control regulations so we will make no effort and can make no effort to control your cash price".

MR. IRWIN: Mr. Johnson, could I suggest that you are on to a chiefly different criticism rather than the one of dealing with the mathematical and administrative feasibility. It's another argument but it doesn't really, if I may suggest, enter into this particular question. While I would be glad to discuss this problem with you -- I recognize that it

exists -- but I don't feel that it relates to commentary on mathematical feasibility or comprehension.

MR. JOHNSON: I didn't realize he was still on mathematical feasibility.

MR. MACDONALD: Well, let me get to -- I have only half made the point I am trying to make -- on page 11 you in effect come to the conclusion, I think I am fair in saying, after assessing the difficulties of revolving credit -- we should have one uniform standard. If we can't have one common denominator you have more than one and it becomes a contradiction in terms. Now one goes to page 19. "In summary my recommendation would be that a dollar finance charge be clearly stated at the inception of the transaction in all forms of consumer instalment credit offered by all types of credit lenders with the exception of revolving credit and other forms of open end credit. In the latter type of credit the methods of calculating the finance charges should be clearly stated in the agreement made with the consumer and the dollar charges shown on all subsequent totals." Now surely this is a contradiction. On page 11 you say you must have one standard, a dollar standard, and on page 19 you come to the final conclusion you can have two standards.

MR. JOHNSON: You are showing them the dollar amount in both cases.

MR. MACDONALD: You want dollar amounts in both cases?

MR. JOHNSON: Oh, yes.

MR. LETHERBY: Right through, straight across the board.

MR. JOHNSON: Right through, yes.

MR. MACDONALD: But in fact coming to Canada on the upper group, all other consumer instalments, other than the revolving credit, it is now done on a percentage basis. Are you in effect saying that to achieve a dollar standard so that we have an objective of one standard, one common denominator, in effect you are advising us that we should get away from the confusion engendered by having percentages in all instalment buying.

MR. JOHNSON: My impression was you do not have a uniform percentage in respect to all other form of consumer credit.

MR. MACDONALD: This is true in that we --

MR. JOHNSON: Isn't this the problem.

MR. MACDONALD: This is what we must resolve in this Committee.

MR. JOHNSON: That's right.

MR. LETHERBY: You see, Mr. Johnson, according to your statement, the dollar is shown and it would solve the problem in this revolving credit, wouldn't it?

MR. JOHNSON: Yes.

MR. LETHERBY: Because if they were to show in revolving credit the amount of percentage-- you know, for instance the T. Eaton or Simpson's people charge -- it would be fantastic. People would say:

"Good heavens, they are charging 2 or 3 or 400%." But if you show that they are only charging, let's say, a few cents for the credit, on a dollar basis, you would escape trouble right there. So do they.

MR. IRWIN: Mr. Letherby, I think it has been brought out here just in the last couple of days, that these large department stores you refer to are actually, in many parts of Canada, using a percentage expression, and others in other jurisdictions are actively --

MR. REILLY: Not on an annual rate, though, Mr. Irwin.

MR. IRWIN: No, not on an annual rate, that's true.

MR. LETHERBY: I stand solidly behind your thinking, son, that you show the dollar every time.

MR. MACDONALD: Then let's add on the percentage to that and give them both.

Mr. Chairman, there is just one other point I want clarification on because it didn't jibe with what I understood to be the case.

Do I understand you to say that the Douglas Bill in the United States deals exclusively with revolving credit?

MR. JOHNSON: Oh, no, I didn't mean to give that impression. The Douglas Bill attempts to deal with all forms of credit, including mortgage credit and on most forms of credit would require dollar and simple annual rate, but on revolving credit -- and

I am a little hazy as to what other items are thrown into that hopper -- certainly revolving credit, charge account banking credit and possibly other forms, but let's agree at least those three are in -- on those form he argues for a monthly rate. Because you see the problem is it's not a monthly rate, it's a charge levied on the balance as of the beginning of the month or the end of the month and bears no relation to a time charge.

MR. SEDGWICK: Well, I will read you the section. It says: "They shall furnish to such persons, prior to agreeing to extend credit under such a plan, a clear statement in writing setting forth the central monthly or annual percentage rate or rates at which a finance charge will be imposed on the outstanding, unpaid balance." This is the July 24 revision.

MR. JOHNSON: I had forgotten he put in the "outstanding, unpaid balance".

MR. SEDGWICK: That's in italics. That was inserted in this revision.

MR. JOHNSON: You couldn't do it possibly on a daily basis unless you had a high powered computer.

THE CHAIRMAN: Mr. White?

MR. WHITE: I just want to make one little observation and that is that this end of June balances, stated by Mr. Sedgwick, do not in fact show the volume of credit being granted in these categories because the credit granted in some of these groupings,

like department stores, will be very much shorter in all likelihood than certain others like the chartered banks. And so if the average credit extended by department stores is six months and the average by banks is a year and a half, you would have to weight these balances and I think it is undeniable -- I mean we would all insist -- that revolving credit accounts and similar credit transactions be included in the legislation. I think this is the proof that it is a significant avenue of credit. I think we are all in agreement on that point.

Now I would like to turn to a little different matter for a moment. At the bottom of page 21 and the top of page 22 you have said it seems advisable to have a period of three or four days in which a buyer of goods or services outside of standard retail stores could withdraw from an instalment contract. The assumption is implicit that most retail stores are reputable and that many door-to-door sales undertakings are not. And I would accept the assumption. But I am wondering if there is any harm done if you had a relatively short period like 48 hours of applying this to all contracts. I can't see that the reputable retailer would be injured by that. I can't see why we couldn't make that universal, which is one of the things you wanted to apply in the statement of cost of credit.

MR. JOHNSON: I take it you would apply it to retail obligations, not cash transactions?

That's a question I am asking you, really. You see, the problem in cash, as I see it, is that the credit lender is involved in a considerable expense of looking the man up and what have you, and if he comes in one day later and says: "Well the horse finished first and I can pay you back now," or "I don't want a file any more", or something like this. I think you are probably being unfair to the cash granter. As applied to all retail obligations, I just don't know. I hadn't really thought it through to that extent. I would certainly, I think, argue for it on door-to-door selling. You would have to make some provision for how you would handle mail order sales and I can't give much advice there either. You may want to say that all retail obligations under a certain dollar amount, to try to get into this economically and educationally depressed group, and not worry about the people who are able to buy a $500.00 television set or something.

MR. WHITE: If it were possible to cancel out a contract, say within 48 hours, even at retail stores, this would likely provide an automatic policing against unfair terms, even in retail establishments. If somebody gets too frisky with credit charges, they can expect the merchandise to come back the next day.

MR. JOHNSON: Or if the merchandise as delivered turns out not to be what he bought in the store. This sort of thing, of course, is another

type of abuse.

MR. WHITE: I can't see any great danger in that and I just wondered if you did?

MR. JOHNSON: I don't, but not because I don't but just because I haven't looked into the field carefully enough to warrant any expressed opinion on it. I think the problem, if you go into the real areas of credit abuses in the United States anyway, it's from the door-to-door peddlars and the poorer sections of the city. For example I recall one credit transaction where a woman bought a set of shower curtains and paid $20.00 for the set in easy monthly payments from a door-to-door peddlar. It turned out that she could have bought the identical set at Macy's Department Store for $2.00. Now you could say there was an $18.00 finance charge. But in fact, of course, what the door-to-door peddlar said was there was no finance charge but it's just $2.00 a week for 10 weeks. No kind of disclosure bill of any sort is not going to protect this consumer. I feel we are in an area of legislation here where we are trying to draw a blanket law to apply to all credit grantors when we really are concerned about the credit grantors who are taking advantage of people in this income, educational class. And I think this is a general problem of legislation, that one draws legislation and the only people who live by it are the ones you didn't worry about in the first place. And the people you are worried about, namely the door-to-door peddlar,

I think this provision giving the consumer the right to return the goods after four or five days and wash the whole transaction out, I think that one provision may be vastly more helpful to the kind of people I am concerned about than any form of disclosure.

MR. WHITE: Well, I think maybe that's the charter point. As a matter of fact it is perfectly true that type of buyer dealing with relatively large items of expenditure can jerk the vendor around a lot. If he were able to cancel out on a contract in 48 hours I think this might, on occasion, be used as a bargaining method. I am thinking of the business in which I was occupied at one time, where large contractors deal with relatively small equipment houses. In this case the scale is so low it is against the vendor in some instances and this would aggravate that situation.

MR. MACDONALD: That's not typical of a consumer deal though.

MR. WHITE: No, but I think maybe Mr. Johnson's point is well taken that you might start this as a conservative approach to such things.

MR. MACDONALD: Not only as a conservative approach. I think the point you raise is a very good one and we should take a look at it, and if it doesn't raise difficulties across the board, because as a general principle laws should be universally applicable, they shouldn't discriminate. But it seems to me that the justification for discrimination

is that if you buy from a department store you know where that department store is. You can go back and you at least know who you are dealing with. With a door-to-door salesman you can't find him and if you do find him he has sold the paper in the interval. So you are dealing with a finance company.

MR. JOHNSON: Yes. I think this is a justification for this discrepancy. This has been reported over and over again in New York. When the consumer had a complaint he couldn't find anybody to complain to.

MR. SEDGWICK: In that connection, Professor, you are of course familiar with the provisions of the English Hire-Purchase Act?

MR. JOHNSON: Yes, that's right.

MR. SEDGWICK: It has a cooling off period. It uses the phrase where the document is signed at a place other than appropriate trade premises. I was just curious to know whether there are any other jurisdictions that have similar cooling off provisions?

MR. JOHNSON: Not to my knowledge but I haven't investigated the laws abroad to that extent. Also the Molony Committee did not recommend the simple annual rate.

MR. SEDGWICK: That is true. They did not.

MR. WHICHER: Mr. Chairman, is it not true that with firms such as Eaton's and Simpson's or Macy's that we now have a cooling off period? I mean

if you buy something you can send it back even in two weeks probably and it may not be a law but in fact there is a cooling off period.

THE CHAIRMAN: That's just the policy of the company, but it is true.

MR. WHITE: You really didn't touch on another recommendation that has come to us, but I would like your opinion on it. At the present time in at least one Province in Canada it restricts the rights of the vendor in repossession to goods actually sold and it precludes collateral chattel mortgages being taken on goods already possessed by the purchaser. We are giving some thought to this idea. Have I made it clear?

MR. JOHNSON: Well, let me switch to the U.S. In the U.S., for example, small loan companies will lend, make a cash loan and as collateral take, I guess it would be a lien, on the furniture, let's say, so the effect would be the same. What you would do would be to prohibit that lien, as I understand it?

MR. WHITE: This would actually, I think, apply only to conditional sales contracts. Right now a person may go and buy a refrigerator and complete a conditional sales contract and that provides the vendor with a chattel mortgage on a stove or such like that he already owns.

MR. JOHNSON: We ran into, in a great many areas, a great many abuses on this where a person would buy an end table on instalment and then a

sofa on instalment and then finally a whole series of furniture on instalment and then the last lamp he bought he would miss one payment and they would clean out the flat. The laws have, I think, been generally reconstructed in the States to prevent this sort of thing. I think the credit vendor should determine the credit at the time of each transaction on the basis of the consumer's current ability to pay and should not be in a position to reach back on all the items he has previously financed and pick up those as well. Especially in the U.S. there is very little repossession of furniture and this sort of thing. Cars, yes, but very little in any household items. It's not worth repossessing really.

MR. WHICHER: Do they ever repossess a car and then the poor fellow who had it taken away from him had to pay additional money?

MR. JOHNSON: Well, the contract calls for, let's say, $1,000.00 balance and you repossess the car. I recall one finance company man said he had been around to repossess the car and they had the hind wheels off and had cut a hole in the side and it was being used as a chicken coop. (Laughter). Well, if they repossess that and manage to get $200.00 out of it and there is a $1,000.00 note, the finance company is legally entitled to attempt to pursue the customer for the remaining $800.00.

MR. WHICHER: Supposing the car was still in excellent shape? And they sold it for $800.00 --

MR. JOHNSON: Then they would be entitled to seek the other $200.00. They seek it but don't generally get it.

MR. WHITE: Well I think in this Province, having repossessed the goods, they cannot then seek any further balance.

MR. SEDGWICK: Oh yes they can. I have one question, Mr. Chairman. It relates to what Mr. White said. Professor Johnson, as you of course will know, the draft Douglas Bill excludes from that Bill business firms, and the English legislation also provides that the Act shall not apply to any hire-purchase agreement or credit sale agreement which is made by or on behalf of a body corporate as the hirer or buyer. Would you favour the exclusion of corporations from any proposed legislation?

MR. JOHNSON: Corporations and partnerships, yes. But that still leaves a great area which we haven't really come to any good conclusion on. What is a consumer credit transaction when your young son buys a lawnmower to make money mowing lawns, is that a consumer credit transaction or is that a commercial transaction? When Mrs. Murphy finances her refrigerator to put in her boarding house, is it commercial or a consumer credit transaction?

MR. SEDGWICK: Yes. Speaking now of the Douglas Bill, the English statute seems to make it specific in that it provides that the protection

that the Act affords applies to persons but not to bodies corporate.

MR. JOHNSON: I certainly would exclude the bodies corporate, but that still leaves --

MR. SEDGWICK: That's what Mr. White was talking about, bodies corporate, in one of his examples and they are excluded from the English legislation and from the protection of a cooling off period.

MR. JOHNSON: I think this is outside the interest of the Committee, but I don't see any real reason to put a ceiling on finance charges on transactions between corporations or partnerships.

MR. SEDGWICK: I would have thought it wasn't necessary either.

THE CHAIRMAN: Mr. Kerr?

MR. KERR: Professor, on page 16 you mention that legislation should encourage fair and open competition and not handicap one segment of an industry more than another or encourage deception of consumers under the guise of protection. I realize that most of your paper deals with revolving credit plans and cyclical budgeting. Insofar as conditional sales contracts are concerned, hire-purchase contracts and certain other types of time payment plans, do you think that by requiring the indication of an interest rate you would encourage deception of consumers by lenders or merchants?

MR. JOHNSON: I think it would certainly encourage deception of consumers by merchants. We had,

for example, a case in California where an auto dealer was advertising that he would finance your new car at 3% per annum simple. He would, but you did have to pay the full list price for the car. We had just this past week testimony in California again with respect to applications for industrial loan licences by Sears on the part of auto dealers, that if competition forced finance charges down they would be forced to raise the prices of automobiles from $50 to $250.00. And I think across the board we can -- again I go back to New York State and Dave Kapplevitz's book The Poor Pay More. In New York you have a pretty good All Goods Act which places a ceiling on the level of finance charges that may be received in financing all kinds of merchandise. And yet these door-to-door peddlars continue to operate and continue to sell $2.00 shower curtains for $20.00. So I don't -- I think that the imposition of a requirement for stating a simple annual rate would again effect those credit grantors whom you are really not worried about and would have no effect on those credit grantors whom you are most worried about.

MR. KERR: I just wondered if you don't think you could enact legislation that would prevent this?

MR. JOHNSON: Only unless you incorporated in that legislation price control. You would have to fix the cash prices of men's suits and so on. And you would have to tell Simpson's they

would have to maintain the same number of floorwalkers after the control as before --

MR. KERR: I mean more the, other than department stores, by merchant I meant car dealers.

MR. JOHNSON: With car dealers the same. The case I cited was an automobile dealer who said he would finance a new car at 3% simple interest.

THE CHAIRMAN: Mr. Rowe, do you have a question?

MR. ROWE: I am just mulling over in my mind here the question that was raised a moment ago, the implications of a cooling off period. We are concerned here with the cost of consumer credit, in this particular Committee. It would infer, if we had a 48 hour cooling off period, that we could only legislate or should decide whether this contract should be nullified and the goods returned and so on, first of all if it's a time payment deal, which precludes any action in connection with cash purchases. There are other reasons for probably wanting to return the goods besides the finance charges, which is our only concern here. Maybe your husband has talked you out of it or your wife has talked you out of it when you got home. Whether we should protect the purchaser or the vendor in a case like that is certainly a question that deserves consideration. Maybe they find the merchandise inferior. We are merely concerned with the credit

end of it. With a cooling off period you are going to prove, possibly, that you are taking it back because you can borrow it cheaper.

MR. MACDONALD: May I ask a question? A number of times this morning you said that the goods would be returned. In normal practice the goods would never have been delivered during the cooling off period.

MR. ROWE: You mean if this were made a law?

MR. MACDONALD: Yes. If this is made law, sure you have the 48 hour period to decide whether or not you are going to get the goods and the delivery is going to be made after, in effect, the contract is confirmed.

MR. LAWRENCE: The cooling off period would be after the contract is signed.

MR. SEDGWICK: That is right. That's the English provision. It has nothing to do with delivery of the goods. It is concerned only with the signing of the document.

MR. MACDONALD: And in practice the goods would never be delivered at all?

MR. SEDGWICK: I presume so.

MR. ROWE: I question that, Mr. MacDonald. If you went in and bought a coat, for example, I don't think the storekeeper is going to say we will wait til next Tuesday to deliver it to you. You can take it home if your credit is all right.

MR. WHITE: I think the merchant would

want to deliver the goods before the cooling off period because -- having a television in the home would firm up the deal. I think there would be quite a lot of that.

MR. ROWE: There are a lot of contracts -- for instance, I used to be in the real estate business. I feel that if a large percentage of the people that evening could have taken their name off that contract on second thought, they would have done it. It may be a house or it may be a refrigerator, but there are an awful lot of second thoughts that have nothing to do with the cost of credit. It has implications, that's all I'm saying. I'm not saying whether it is good or bad, but it does have implications when you finally get down to delivery of these things.

MR. BUKATOR: You mean you haven't really sold them on it.

MR. ROWE: Well, I mean I think many people have second thoughts that evening when they go to bed at night and the din is all down and they are lying there, they say: "Why did I get myself in for that", you see? Not necessarily finance charges. That isn't the point.

MR. KERR: As far as a cooling off period is concerned, aren't we going to have to distinguish between a person going into a store and taking the initiative and buying a product as opposed to a person being approached by a salesman. I can't see a cooling off period if a man walks in off the

street and decides to buy a coat.

THE CHAIRMAN: In a great many cases they would take the merchandise back if they changed their mind anyway.

MR. KERR: Maybe they would. But I don't think you should -- a fellow says: "I've had this coat for a couple of days and I don't like it after all" --

MR. WHITE: I think Mr. Kerr has brought up an interesting point and that is where does the initiative lie?

MR. ROWE: That would be pretty hard to prove.

MR. JOHNSON: We are basically after the door-to-door salesman.

MR. LETHERBY: The salesman may go to a person to sell him one item, though, and the customer gets interested in something else. You are going to have trouble differentiating who initiated that sale.

MR. JOHNSON: The customer can always walk out of a store where she can't walk out of her own home.

MR. LETHERBY: I think, Mr. Chairman, that Mr. Rowe and Mr. Kerr raised a very good and valid point here. I don't think that we would be favourably thought of, this Committee or new legislation, if we stuck strictly to a 48-hour cooling off period in all transactions. If I go into my neighbour's store in Coldwater with my eyes

open and I say I want that Chesterfield and that television set and that refrigerator and I will sign your bill of sale and your contract for financing and it is delivered. Now I don't want him to be held up for 48 hours when he knows me and I know the product I'm buying. This would apply to large department stores too, which I think would be most unfavourable. Now what we are trying to get at is the door-to-door salesman that --

MR. REILLY: No question about that at all.

MR. LETHERBY -- that shacked up that home that you spoke of. Now they are the boys and this fellow that sold the $200 curtain for $20.00. I've gone out selling life insurance. I sold a man a $10,000.00 life insurance policy, he wanted it, I quoted him the rate, he gave me a cheque, he signed the application. God help me if he had come back in 48 hours and said: "I want that cheque back".

MR. REILLY: There is no doubt at all, Mr. Chairman, that what the members of this Committee are concerned about is the door-to-door salesman who takes advantage of the --

MR. JOHNSON: Simple wife. (Laughter) My wife would be simple enough to buy --

MR. REILLY: But there are complications here, Mr. Chairman, that we must be very careful about. Some of them have been mentioned. So we can't just sweep in and say we should have a

cooling off period. I would like to give very serious thought as to whether it is advisable or not. As a matter of fact, I would be willing to say right now, Mr. Chairman and members of the Committee, that most reputable vendors have an automatic cooling off period now who operate businesses.

MR. JOHNSON: Therefore they would have no objection to a law.

MR. REILLY: What we want to do is get at the unscrupulous door-to-door salesman.

MR. JOHNSON: Let's pass a law that there can be no door-to-door salesmen. (Laughter)

MR. REILLY: Mr. Chairman, I wonder if the Professor would tell us or suggest how he would differentiate between those who are reputable and those who are not. In the United States I suppose they license all the door-to-door vendors. Is it done municipally?

MR. JOHNSON: Municipally, but it's entirely ineffective because the policeman in New York City has many more things to do than chase down door-to-door salesmen. So that while they are licensed their licensing is quite ineffective. I think the only way you could do it here is on a broad basis by limiting it to merchandise bought outside of an established retail establishment and you see this, in contrast to say the simple interest rate disclosure, costs those firms that already giving a cooling off period nothing, because they don't have to change their procedures or make any new calculations

or add a single person to the staff. So I don't think you are hurting them one bit. They are already doing it. But you are, I would hope, going to reach these door-to-door salesmen who are taking advantage of people.

MR. REILLY: You thought, Dr. Johnson, is that when they are licensed municipally then the problem is with enforcement?

MR. JOHNSON: The problem is with enforcement, yes.

MR. REILLY Would you like to tell us something more about your views between the commercial and the consumer credit? What is the difference?

MR. JOHNSON: Well, from an economic point of view and in the way that statistics are gathered, we would like to limit consumer credit to those transactions where a good or service has been acquired for the exclusive use of the consumer. But as a practical matter we have several alternatives. The problem, for example, again is the doctor who buys a Ford to drive around on his rounds and the Cadillac for his own personal use. How do you distinguish what was bought for credit for commercial purposes and what was bought for his own personal use. You can go by retail establishments, which seems to be the crux of the English law, but after all there are a lot of things sold at the retail level which are used for commercial purposes.

MR. REILLY: Excuse me, I am not

familiar with the English law in that connection. Would you like to elaborate on it?

MR. JOHNSON: I think he was quoting from the --

MR. SEDGWICK: From the 1964 Hire-Purchase Act. To sum it up, Mr. Reilly, it provides that if a sale is made at other than an appropriate trade premise, and then it defines an appropriate trade premise -- it's a long section, but it really means that these goods are regularly sold to whoever may come in -- and it is, of course, aimed at door-to-door salesmen. I would read the section, but it's a long section.

MR. REILLY: They make a difference then from the standpoint of the place of business.

MR. SEDGWICK: Well, it says an appropriate trade premise which in relation to a document means premises at which either the owner or seller normally carries on a business of goods of a description to which the document relates or goods of a similar description, are normally offered or exposed for sale in the course of a business carried on at those premises. So if you go into Eaton's and buy something, Eaton's are an appropriate trade premise. But if somebody comes to your door and sells you the shower curtain, then the document is not signed in an appropriate trade premise, then you have the four day cooling off period that you provide for, and if the goods have been delivered meantime there is a long and somewhat complicated section which provides for what you do with the

goods. You can redeliver them or tell them they are there, and so on. The document of obligation is voided if you see fit to void it within that four day period.

MR. REILLY: Does that include, say, magazines?

MR. SEDGWICK: I think it would include anything sold door-to-door, sold in other than an appropriate trade premise. It would not include magazines if, for instance, you went into a store like Eaton's and decided to subscribe. It deals with the place of transaction and not with the kind of goods. It could cover anything from automobiles to subscriptions to magazines. It comes into force on the first of January, 1965.

MR. JOHNSON: But to answer Mr. Reilly's question, consumer credit transactions excluding corporate transactions.

MR. SEDGWICK: Where the buyer is a corporate body, not, of course, where the seller -- that is so in the Douglas Bill.

MR. ROWE: How does that work out with the mail order business. A person up in northern Ontario writes an order in and signs the magic papers and so forth.

MR. SEDGWICK: And gets credit that way?

MR. MACDONALD: The place of business is where he sends the order in, apparently.

MR. SEDGWICK: I would think so. It's

where the contract is signed.

MR. ROWE: More than 48 hours elapse before he knows whether he will get it.

MR. SEDGWICK: Well they have extended the cooling off period by this new statute to 4 days. My recollection is it was 48 hours. Am I not right?

MR. JOHNSON: I don't recall well enough.

MR. SEDGWICK: I'll look it up. I think it was 48 hours and they have now made it four days. The present bill flows almost entirely out of the Molony Report.

THE CHAIRMAN: Mr. Reilly, do you have anything else?

MR. REILLY: No. I would just like to say to Dr. Johnson that I certainly appreciate his brief and I will cherish some of his views.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: This will only take a moment. Perhaps to get your views, Dr. Johnson, and to express mine and see if there is some area of agreement.

On page 9, for example, and I won't read it, you refer to the administrative difficulties of dealing with delayed payments, skipped payments, interrupted schedules and all this kind of thing. My own investigation from the point of view of going through the mathematical mechanics of coping with these situations and in talking to lenders who have to cope with these situations, that the use of properly prepared tables

actually reduces the problems to very minimal proportions. That the lenders now who are dealing with these odd situations are in fact using tables and they are tables that show salesmen readily and clerks readily the amount of charge to be made on a given balance for a given period of days. For instance under the Small Loans Act, one of the lenders, one of the larger lenders, whom I consulted on this, very proudly showed their ready reckoner thing for determining this. It poses no problem to them. I just suggest to you that tables, and I have developed some tables myself, with the help of a computer, that indicate that this problem may be somewhat overstated or overemphasized because the use of properly prepared tables can, with elementary training in their use, can cope with this situation rather easily.

MR. JOHNSON: One interesting point

Johnson, is that finance charges, whatever they may be from the table selected by the farmer way out in the country dealing with a mail order form. If those tables are prepared by the vendor on an actuarially sound basis, dealing or based on a rate which he knows he is getting and wants to get, the customer is not in any way involved in the determination of the rate. The rate is already incorporated in the table.

MR. SEDGWICK: Suppose the customer fills in the document, as Professor Johnson said, and merely picks out --

MR. IRWIN: From the table.

MR. SEDGWICK: No, no, the customer has no table. He just has a document saying that if you bought $100.00 you are going to pay $10.00 a month for 12 months, the finance charge is $10.00. That's all he knows.

MR. IRWIN: Yes, but he has to get this information that if his balance, the amount that he must pay, is $100.00, then he must have some thing provided him by the lender, that he is to add on $10.00 or $20.00.

MR. SEDGWICK: Right, right.

MR. IRWIN: What I am saying, Mr. Sedgwick, is that the lender would prepare that data for the use of the customer on the basis that if he adds $10.00, this $10.00 is a rate.

MR. SEDGWICK: How does the seller know what terms the customer will select?

MR. IRWIN: He can select any terms he

wants.

MR. SEDGWICK: Right.

MR. IRWIN: What I am saying, Mr. Sedgwick, is the table has to be there, but the table itself can be prepared by the lender based on an actuarial determination.

MR. SEDGWICK: But who is to fill in --

MR. IRWIN: Let the customer do that.

MR. SEDGWICK: All right -- wait a minute -- look where that leads you to. You say to the customer, you must fill in two things -- a dollar amount and the dollar amount expressed as a percentage. And suppose instead of filling in 18% he picks the wrong figure from the tables, as I am sure they would half the time -- then he fills in 15%. Would that invalidate the document?

MR. IRWIN: What I am trying to say is -- you are making it a much more difficult problem than in fact it is. Let me explain it. The customer is going to select his own terms and his own dollar charges. Right. But that information surely has to be provided for him in table form so he can look down the table and say -- "There is $100.00, that's what I am going to owe. I am going to pay over a period of 12 months, so the amount to be paid each month is so much, and the amount I have got to add for finance charges is this amount." Now this is the point. The vendor in preparing that information and no other for the customer, simply says at the bottom of this table, "All of the figures on this table have been actuarially

calculated based on a rate of 18% per annum." And that's the end of it. No matter what the customer selects the table is going to be 18% per annum.

MR. SEDGWICK: Except, Mr. Irwin, that they aren't all 18% per annum. If he selects the 24 months payment it may be 17.2. If he selects the 12 months payment it may be 18.6. If he wants to pay it in 6 months it may be a quite different one.

MR. IRWIN: This isn't true, because if the table is prepared using a standard rate for every single calculation on the table, then every single calculation on the table will be 18%.

MR. REILLY: This is getting complicated.

MR. SEDGWICK: Suppose that isn't so, suppose that the rate is different for two money years than for one, as it may well be. So it won't be.

MR. MACDONALD: That would be based on the table.

MR. SEDGWICK: Well, but then you say to the customer you must look at the table and pick out the appropriate percentage and if you fail to do so you have invalidated the document because that, I understand, is the object of the legislation.

MR. MACDONADL: Well, as I understand Mr. Irwin, he is not suggesting he has to put in the percentage.

MR. IRWIN: No, he doesn't. He picks what he wants.

MR. MACDONALD: Because the table says if you are on a 12 year term you are paying 15%,

if you are on a 20 year term you are paying 12%. This is on the table for his information.

MR. SEDGWICK: Well then, that's a departure because I understood the whole concept of stating a percentage was that it would be stated in the document of obligation.

MR. LAWRENCE: My God, he's got to fill in those six different spaces as it is, he's got to go down and total the amount he is going to borrow, the term of it and the amount he is going to pay back every month. Now you are not going to tell me that a good percentage of these Eaton's mail orders aren't already returned by Eaton's to the customer saying quite blankly to them you goofed, you filled in the wrong space there. What we assume you want is this and this and this. Would you please confirm it.

MR. SEDGWICK: Then you are going to add to it that he must fill in the percentage rate. Then if he makes a mistake, in order for it to be valid Eaton's must send it back and say you selected the rate of 17.3, it should in fact be 20.1. By which time he says that's too much trouble, I won't bother.

MR. OLIVER: Surely, Mr. Chairman, the customer doesn't have to fill in whether it's 15 or 18%.

MR. MACDONALD: As Mr. Irwin says, it's there for his information. That's all we ask is that the customer be informed, that's all.

MR. IRWIN: As long as the table he is going to use is on the form. Otherwise you are certainly going to have to include a percentage rate.

This is the whole purpose of the thing. As I see it the table is on the form and at the bottom of the table it simply says -- now you could have one column for the 12 month contract, you could have another for the 15 month contract. All that table would show is the balance that I owe, the monthly payment I must make and the finance charges I must add. At the bottom of the table it would say, in effect, I don't know how legally it would say it -- if you select from column 1 you are paying 18% per annum. If you select from column 2 you are paying 15% per annum. If you select from column 3 you are paying whatever percent per annum.

MR. SEDGWICK: If you select a skip thing you are paying some other percentage that you have no idea of.

MR. IRWIN: No. What I am saying is that the table would have to be prepared so that, and this is not mathematically difficult, that every amount shown on the table is exactly the rate stated, so you can't pick anything else except what's on the table and the table is determined on exact rates.

MR. LAWRENCE: That would mean that the table would have to be incorporated in --

MR. SEDGWICK: In the document of obligation.

MR. LAWRENCE: Then you would send them back a copy of their contract completed.

MR. SEDGWICK: Then if they completed it wrongly. They looked at, instead of at column 3, they

have looked at column 2 and they picked the wrong rate, then if the document of obligation is to be valid you would have to send them notification that you have changed it from 17.2 to 18.5, would you please initial the changes and send it back, and if he didn't do that they would have to send it back again.

MR. IRWIN: They don't require him to do that. I think the table is enough, the table itself is enough notice. Then after he has completed the contract as far as their amount is concerned and the amount of payments and the term, then they get a completed contract back. (rest inaudible)

I have said this many times. I have looked into this and have talked to these men and the fact is that they don't see that this would be such a terrible problem.

MR. WHITE:: Mr. Chairman, I want to underline the fact that a whole new idea is being introduced here because in all these considerations we have assumed that the amount of interest would be part of the contractual agreement. Now if a table or a chart on a wall or a table published in an advertisement in the paper -- I mean we are getting away from the idea that it has to be a clearly stated interest rate as part of the document. If it is printed on the document that brings up another point. If we choose that method of insuring disclosure then we are distorting the money market to some extent. If we say you have got to print it on the document and it has to be this simple rate of 18%, then the benefits which accrue to the larger buyer

or to the buyer paying over a longer period of time, the economies that enter into that would be distorted by the legislation.

MR. IRWIN: Could I comment on this, please, because when you suggest that a new idea has been introduced when, in fact, I don't think it has. What I thought I was responding to was the situation of the mail order house and the mail order house only. Now, I am a very pragmatic person. Mr. Reilly surely must understand that I am not interested in adding to the burdens of business. In every other form of contract I am sure you will recognize that the buyer sits there on the other side of the table and the seller sits here on this side of the table. And I would suggest to you that in 99% of lending arrangements made that will be the physical situation. In those situations I would not suggest that the table be incorporated in the document. The lender has the table at his left-hand side and he says on the document this is a rate of --. What we were talking about was the 1%, possibly, of cases of the mail order house where there is not a physical juxtaposition of the buyer and the seller, or the lender and the buyer, but someone who is in a remote position. Now merely as an administrative convenience to deal with this problem and not destroy the concept of a declaration, then let the buyer have the tables. Let the tables be calculated actuarily so that every amount he reads off of that table will be at the rate stated. This is, in other words, if there is a little adjustment of the administration that has to

take place to accommodate the peculiar situation of the 1%, surely this doesn't raise an entirely new issue in regard to every other contract.

MR. WHITE: Well that may be so, but I think, Mr. Chairman, that we have to acknowledge that the dollar amount is a much simpler device than a rate of interest, and as we explore the exceptions and unusual contracts of one kind or another then we find an infinite number of complexities being added. It is the simplest way to disclose. When we come up to revolving credit or to this new proposition and there are going to be many other we have to consider, I think we have to conceive that it is very, very much more complicated.

MR. JOHNSON: Mr. Chairman, if I could add a little more arithmetic in terms of Mr. Irwin's proposal. If you assume that Sear's sells items all the way up to $800.00 -- I suspect there are some higher, but $800.00 is what I took -- and allow them six variations in the sense of terms on contracts in his little tables, this already gives us 480,000 items. And then if you allow for variations to the extent of, say, a ten day lag, you can probably block off sections of the table -- you are back up to 4,800,000,000 for the consumer to read in the dollar finance charge which, after all, is the most important single item both to him and to the credit grantor.

MR. IRWIN: There are not 4 million entries for any one buyer. There is only a very few.

MR. JOHNSON: But you are going to give

him a catalogue with 4,800,000,000 --

MR. IRWIN: No, no, I heartily disagree with this and I have worked this out. I have taken tables that are now being used by -- taking a retailer's table. He is now using this table.

MR. JOHNSON: But you are going to change the system.

MR. IRWIN: No, no, I'm not going to change the system. If I may be allowed to explain. You take his table, and it's a very limited table. It's at present on one side of a piece of paper like that and it has columns of 6 months, 12 months, 15 months, 18 months, 20 months and so on. And this is what the clerk is using. The only thing wrong with this table is that it is not done scientifically and mathematically correctly. It is done in broad ranges and lumped amounts to apply to ranges of contracts. And I have actually worked this out. I have taken the table that they say they want to use. Now if that table were calculated correctly so that at the bottom it says: All rates on this table are calculated actuarily at any figure you want, the lender selects the rate. There is no suggestion that he should be limited in what rate he chose. He simply sends his present table off to a publishing house that has an actuary on the staff or available and says to them: "I want this same table calculated so that every entry thereon will be 18% per annum, he will get a table back that will give him just that and he won't have this book, which I have prepared to cover all possible calculations, this book, taking this set of

tables in which there are 45,000 calculations, the actuary would calculate his table and at the bottom he could simply say that every amount quoted on this table represents 18% per annum. And that's all.

MR. SEDGWICK: But Mr. Irwin, suppose the retailer figures that on certain small transactions 18% is inadequate and on large long term transactions it is excessive -- which I think he may well do --

MR. JOHNSON: He does. It's a matter of practice.

MR. SEDGWICK: Undoubtedly he would. Then what do you do?

MR. IRWIN: Just the same thing. Send the table to the actuary and say: "In regard to balances under $100 and six months' duration I want a rate of 24%, on balances between$100 and$200 in excess of six months duration and up to 18 months' duration I want 22% --

MR. SEDGWICK: All right, go on.

MR. IRWIN: And for balances of over $200.00 and up to 36 months, let's say, I want 15%. The actuary will work it out for him.

MR. SEDGWICK: I know, but it isn't only that number, it's all the other possible combinations and all that would have to appear on the document which you send to the purchaser.

MR. IRWIN: But there will be no other combinations, and I have checked this out.

MR. SEDGWICK: Why not --

MR. IRWIN: A retailer doesn't want now

to complicate his arrangement unduly. And what he does, and there is an illustration in the Small Loans Act, as I demonstrated before. You put to me last December a question about $1,090.00 for 19 months and what is the rate? But in practice you see, you couldn't get that deal from the small loans people because they realize how fantastic the calculations would be if they provided any amount of money to anybody for any period of time. So if you into this company they will say well, that's fine, our tables don't provide for $1,090.00 for 19 months. The nearest we can offer you is $1,000.00 for 20 months and that's what you would get.

MR. SEDGWICK: I see.

MR. IRWIN: So what I'm suggesting is that to suggest that you are throwing at the retailer a vast series of computations is not practically true because the retailer or the vendor decides from all these possible computations the most suitable one set of circumstances to cover an approximate situation. So if you want $1,090.00, he won't loan you that.

MR. SEDGWICK: He's selling merchandise. He may have an article that sells for $1,090.00

MR. IRWIN: Then he adjusts your downpayment to bring it into the table.

MR. SEDGWICK: I'd like to get six intelligent High School students and sit them down sometime and put before them some of these proposals and see how many of them solve them rightly.

MR. IRWIN: Oh, they couldn't possibly. I have never suggested that they could.

MR. SEDGWICK: No, I don't think they could either. And you suggest some farmer in the back concession --

MR. IRWIN: But again the same thing applies. A man comes in and says that he wants to buy some odd amount and the clerk looks at the table and says: "Gee Whiz, that situation isn't covered, so you have to pay this much as a downpayment in order to bring me into my table. That's what they do in practice.

MR. WHICHER: Mr. Irwin, isn't a life insurance manual like that. I mean you can buy $1,000.00 worth or $1,500.00 worth or $1,200.00 worth or $10,000.00 worth for 15 years or 20 years or 25 years and it's all there in the book.

MR. IRWIN: That's right. I have never suggested at any time in this Committee suggested that the clerk at any time should make the calculations, and I would withdraw anything I have ever said if I thought that that was going to be the result. I have said that the clerk should be provided with a table that is calculated actuarially. The clerk will do no calculations whatsoever, nor will the salesman talking to the farmer on the fender of a tractor. He is provided with a table and the table is determined actuarially.

MR. SEDGWICK: What would happen to the man with the mail order who sends in the document?

MR. IRWIN: He would be provided with a table, asked to make his selection and he would automatically determine his own rate.

MR. SEDGWICK: I'm a great optimist but I don't think it would work.

MR. WHICHER: The point is the table, coming back from Eaton's to the customer, so that it's right there that it's filled in -- 18% or 22% -- we really don't care what goes from me to Eaton's, it's when it comes back,the contract sealed and signed, to me and I know that I'm paying 18% or 21 or whatever the case may be, and surely Eaton's are in a position to do it.

MR. SEDGWICK: As a matter of law I would have thought that something that the buyer puts in the contract after you have signed it is not binding on you at all, and may conceivably invalidate the contract.

MR. IRWIN: I admit I don't know anything about the legal side of it.

MR. LAWRENCE: It's sent back.

MR. SEDGWICK: To be signed?

MR. LAWRENCE: Sure. You don't just take the farmer who says I want to buy a $1,000.00 article and spread it over 20 years.

MR. SEDGWICK: But I think what he does precisely is take the order form out of the catalogue and if he wants to buy a new suit and two pairs of shoes and so on and fill that in and fill in the prices and says he wants to pay over six months -- I

see from your table --

MR. LAWRENCE: Does he also put in the amount he is going to pay?

MR. SEDGWICK: Sure because it's in the table.

MR. LAWRENCE: If he's got to fill in those things, what's wrong with also putting in the percentage rate.

MR. REILLY: Why add complications?

MR. SEDGWICK: Now let's wait a minute. Supposing he doesn't.

MR. LAWRENCE: If he doesn't, the same as happens now, the thing is invalid.

MR. SEDGWICK: But that doesn't happen now at all.

THE CHAIRMAN: Are there any other questions, gentlemen?

MR. IRWIN: On page 18, I just want to cover another point of reconciliation. You suggest, Dr. Johnson, on page 17 and the top of page 18, that if there were a transfer of the finance charges to the price of the article, presumably in the case of revolving credit accounts and for department stores, that $1\frac{1}{2}\%$ must be charged adds up to $5\frac{1}{4}\%$ of the total cost of the merchandise. Now you may have some meaning there that I don't understand, but I have looked into this problem too in this sense; supposing that the large department store was forced to comply with this disclosure requirement and he didn't want to. So he abandons his service charges altogether -- the $1\frac{1}{2}\%$ -- and

recovers by raising prices, across the board. I have checked this out with one of the large department stores here on their own data, and the result of abandoning the service charge altogether would be to add approximately -- and this is an estimate -- 3/4 of 1% to the cost of all merchandise. Now how does that reconcile with your $5\frac{1}{4}$%.

MR. JOHNSON: Well, that is why I said up to, because not all sales are credit sales. This would be presuming all sales were on credit, then there would be an addition of $5\frac{1}{4}$, but your figure is more realistic than mine and supports my point.

MR. IRWIN: In effect the abandonment of the service charge for the large department stores they estimate would result in an increase across the board of 3/4 of 1%.

MR. JOHNSON: This, I presume, would be a fairly low portion of credit sales.

MR. IRWIN: Or 3/4% in every dollar of sales.

MR. JOHNSON: Which would be very easy to bury then.

THE CHAIRMAN: Any other questions, gentlemen? Well, Professor Johnson, we are very indebted to you for coming here this morning and giving us the benefit of your advice and presenting to us a very excellent brief.

Your brief has prompted a great deal of discussion and that's what we are here for to get the answers and you have given us some that we hadn't

had before and we are very interested in the position that you have taken. We have heard about your reputation and it has been very pleasant having you here today.

Thank you again, on behalf of the Committee, for coming.

Gentlemen, before this meeting is adjourned we plan on meeting in two weeks' time, if we can arrange to hear the door-to-door people for the next three meetings. Following that we will have a trip to Ottawa and then to Washington if that can be arranged.

---WHEREUPON THE MEETING ADJOURNED.
